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As I see

# THE PURCHASE OF A HOME

I have always maintained that the purchase of a home should be regarded in a different light than the purchase of any other type of investment. The dividends received on the ownership of a home are not necessarily in dollars, nor is it possible to compute them as a percentage of either original cost or current market value. The intangible dividends of a house full of books and a garden full of flowers may be greater during a period of depression than during a period of prosperity, although other investments during the readjustment may have either cut their dividend rates or passed their dividends altogether.

I have always referred to the purchase of a home as "an investment in living." By this I do not mean to say that a house for single-family occupancy has no intrinsic value as real estate. Actually, anyone buying a home in almost any year since 1936 could have resold it at any time from the date of purchase to the present for more than he paid for it, in spite of the depreciation which accrued during his ownership.

This has been due, however, primarily to war inflations which have increased real estate values through increasing the price in dollars as the purchasing power for goods and services of each individual dollar declined, and through concentrating a larger percentage of our population in industrial occupations in our cities.

If the next 25 years should repeat the period we have just come through in continuing inflation, then a single-family residence could be purchased as a home with great probability that it will eventually sell for more than its present selling price, in spite of its increasing age. Actually, I would not be greatly surprised if some time within the next 4 or 5 years, general business were to go through a readjustment period, resulting for a while in an increased purchasing power for money. If this happens, during the period real estate would have some drop in dollar selling prices. I believe, however, that both political parties and the general public in the United States are thoroughly sold on monetary control as a means of preventing continuing depressions. Should a readjustment start to develop, the supply of money and credit would be increased rapidly and inflation would again start to increase prices. I believe it is quite reasonable to assume that at the end of 10 years the purchasing power of money will be less than it is at present and that the selling price of real estate will be greater.

On the basis of the foregoing opinions, I have quite frequently advised young couples to buy a home if they believed that the home they would buy would be occupied by them for at least 10 years. I have advised many young couples to postpone purchasing if there was considerable chance that within 5 years they might want to dispose of the house because of a transfer or changes in the size of the family.

Here recently I have been looking at the cost of home ownership from a somewhat different angle. I have in mind the person with an above-average income, who is thinking of either building or buying on today's market. Is there any good reason to invest a relatively large amount in a home in preference to living in rented quarters?

My attention was called to this problem here recently by seeing an advertisement in the classified advertising columns of a large metropolitan daily in which a home builder advertised that he would build a $50,000 home for anyone with a good credit rating in an above-average income bracket, without downpayment and with an actual monthly cost of ownership of less than half of the cost of rent. The more I thought about this advertisement the more intrigued I became with the idea that possibly our high progressive taxation is bringing down the cost of home ownership in a rather radical manner to a person in higher income brackets. In the illustrations I have given below, the loss in income after Federal income taxes through the investment in a home is remarkably low, even when the real estate tax is added to the loss in interest.

Let us start out by assuming a man and wife with a taxable income of $100,000 a year, who would like to live in a single-family residence which would sell on today's market for $75,000. Seventy-five thousand dollars, the purchase price of the home, if in 3% Government bonds, would bring in $2,250 a year. The taxes on the $75,000 house would vary in different communities, but assuming a fairly high tax rate, I am estimating that the annual taxes on this property would equal $1,000. Recapitulating, if the family sold $75,000 worth of 3% bonds and bought the house, it would lose $2,250 in interest and, in addition, would have to pay out $1,000 in taxes per year, or a total of $3,250. However, the last increment of income of this family is in a 75% tax bracket, which means that had it retained as income the $3,250 which it is now paying out or losing in interest, its Federal income tax would have been increased by $2,437.50. Therefore, the net loss through ownership of this property would be $812.50 a year, or less than $68 a month. Of course, this figure of less than $68 a month does not include depreciation on the building nor does it include maintenance, but, as pointed out above, depreciation expressed in dollars in the past 25 years has amounted to less than nothing, as the dollar selling price of a 25-year-old building is between two and three times its selling price 25 years ago. I think it probable that over the next 10 to 15 years there will be enough additional inflation to keep any depreciation cost to a minimum, or it may be that the inflation will be such that depreciation may be changed to appreciation in dollars.

The maintenance expense of operating this building will be relatively high but, on the other hand, so would the operating expense of a rented building, the rent of which would be many times our loss of interest after taxes, and *rent is not a deductible item for income tax purposes.*

The table below shows comparable figures for married persons with taxable incomes from $10,000 to $100,000 on investments in homes from $15,000 to $75,000.

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|
| Taxable income | Invest-ment in home | Loss in interest at 3% | Probable average real estate taxes | Total columns 3 + 4 | Amount of income retained after taxes on last part of income | Columns 5 x 6 or annual net cost in reduced income | Monthly net cost in reduced income |
| $100,000 | $75,000 | $2,250 | $935 | $3,185 | 25% | $796.25 | $66.35 |
| 75,000 | 60,000 | 1,800 | 750 | 2,550 | 35 | 892.50 | 74.40 |
| 50,000 | 50,000 | 1,500 | 625 | 2,125 | 41 | 871.25 | 72.60 |
| 35,000 | 40,000 | 1,200 | 500 | 1,700 | 50 | 850.00 | 70.85 |
| 25,000 | 30,000 | 900 | 375 | 1,275 | 62 | 790.50 | 65.90 |
| 15,000 | 20,000 | 600 | 250 | 850 | 70 | 595.00 | 49.60 |
| 10,000 | 15,000 | 450 | 187 | 637 | 74 | 471.38 | 39.30 |

The illustration used in the advertisement, however, has an additional tax saving, as the $50,000 house was financed with a 100% loan. This means that interest payments, particularly in the earlier life of the building, would be quite heavy, and again it should be remembered that interest is a deductible item in contrast with rent, which is nondeductible.

Using a man with a $50,000 net taxable income as an example, buying a $50,000 home with a 100% loan to be paid off in 20 years, the figures would work out something as follows:

With interest at 5%, $329.98 a month for 20 years will repay $50,000 in 20 years and will pay 5% interest on the outstanding balance. We are assuming that the average taxes would amount to $625 a year, or $52.08 a month.

In the first month, $208.33 would go to interest and $121.65 to principal. Since $121.65 is theoretically increasing the equity by that amount, had he invested it in a savings and loan association, it would probably have paid him 3% interest. Three percent interest on $121.65 for a month amounts to $3.65. Had he not purchased the house, his net taxable income would have been increased by

$3.65 interest he did not receive plus $208.33 interest he paid out plus $52.08, the monthly share of the annual real estate tax bill, or $264.

However, had his income been $264.06 larger, his income tax would have taken 59% of this extra income, leaving him $108.26 as his actual out-of-pocket cost after taxes.

His last payment at the end of the 20 years is all principal, so by that time he has invested $50,000 in a house which, had he invested in a savings and loan association, would probably have paid him 3%. Since he has invested this money in the house, his net cash increase is short the 3% on $50,000 for the month, or $125, and he is also short the $52.08 he must pay in real estate taxes, or $177.08. Reducing this amount to what it would cost him after taxes, $177.08 x 41% equals $72.60, his monthly out-of-pocket cost of ownership after taxes at the end of the 20-year period.

It should be emphasized again that it is not claimed that loss of interest on the amount invested and real estate taxes are the sole costs of home ownership. A more complete list would certainly include such things as maintenance and repair, and insurance. While depreciation should also be included from the theoretical standpoint, practically it has played very little part during the past in the United States, as buildings 40 and 50 years old have generally sold for more than their original cost.

The point I am emphasizing is that any man in a higher income bracket, because of progressive taxation, can afford an "investment in living," as the investments he liquidates to buy his home will not reduce his income after taxes by any great amount. The nonmonetary dividends he receives are not taxable.

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